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Malcolm Baldridge National Quality Award 1999 Award Recipient, Service Category

The Ritz-Carlton Hotel Company, L.L.C.

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Commitment to Quality



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The only two-time recipient of the Malcolm Baldridge National Quality Award in the service category, The Ritz-Carlton Hotel Company manages 36 luxury hotels in North America, Europe, Asia, Australia, the Middle East, Africa, and the Caribbean. All have received four- or five-star ratings from the Mobil Travel Guide and diamond ratings from the American Automobile Association.

The Ritz-Carlton competes against nearly 10 hotel groups in the "luxury" and "upscale, deluxe" categories in the industry. Sales totaled almost \$1.5 billion in 1998, with services provided to meeting and event planners accounting for 40 percent of the total. Independent business and leisure travelers constitute the next largest customer segment.

More than 85 percent of the company's 17,000 employees—known as "The Ladies and Gentlemen of The Ritz-Carlton"—are front-line workers in hotels. Through extensive training programs and by offering opportunities for professional development, the company encourages personnel to advance in the organization. Ritz-Carlton President and

Chief Operating Officer Horst Schulze began his career in the hospitality industry as a waiter's apprentice at a hotel in Europe. An independently operated division of Marriott International, Inc., since 1997, the 16-year-old company is headquartered in Atlanta.

Highlights

- In an independent survey, 99 percent of guests said they were satisfied with their overall experience; more than 80 percent were "extremely satisfied."
- Any employee can spend up to \$2,000 to immediately correct a problem or handle a complaint. First-year managers and employees receive 250 to 310 hours of training.
- Pre-tax return on investment and earnings (before income taxes, depreciation, and amortization) nearly doubled since 1995.
- From field of 3,528 nominees, selected "Overall Best Practices Champion"—1998 study by Cornell School of Hotel Administration and McGill University.

'To be the Premier Provider ...'

Winning the 1992 Baldridge Award was both acknowledgment that Ritz-Carlton was an exemplary performer in the pursuit of excellence and an impetus for further improvement. Company management raised the threshold throughout the organization.

Goals for customer satisfaction were raised to the "top of the box." Earning ratings of very or extremely satisfied became a top priority as well as a key element of The Ritz-Carlton strategy to achieve 100 percent customer loyalty. In its operations, the company set the target of "defect-free" experiences for guests, implementing a measurement system to chart progress toward elimination of all customer problems, no matter how minor.

Management took actions to realize other major opportunities for improvement. It revamped its strategic planning process to make it more systematic, and it refined its total quality management system, with the aim of achieving fuller and deeper integration into the organization. One output of this reassessment is the "Greenbook." Now in its second edition, the Greenbook is The Ritz-Carlton handbook of quality processes and tools, a nearly constant reference that is distributed to all employees.

Efforts to reduce employee turnover and to address employee morale issues—challenges faced by the entire hotel industry—also were undertaken. For example, hiring selection processes were refined and streamlined, and a new initiative—"Pride and Joy"—gave employees a larger role in the design of their jobs. Turnover rates have declined nine years in a row and levels of employee satisfaction are trending upward.

Pyramid Concept

To help set a clear direction for continuous improvement and to align actions at all business and operational levels, The Ritz-Carlton has developed its pyramid concept. Positioned at the top is the company's mission: "To be the premier worldwide provider of luxury travel and hospitality products and services." Succeeding levels consist of The Ritz-Carlton 10-year mission (product and profit dominance), five-year mission (broken down into 14 "vital few objectives"), tactics for improving key processes, and strategies and action plans for sharpening customer and market focus. These tiers are underlain by the company's total quality management system and methods.

Finally, The Ritz-Carlton values and philosophy make up the base of the pyramid, serving as the foundation for all continuous improvement efforts. The company goes to great lengths to instill and reinforce the philosophy and values in all employees. Everyone receives a wallet-sized copy of the "Gold Standards," which consist of the company's Motto, Credo, Employee Promise, Three Steps of Service, and The Ritz-Carlton Basics—essentially a listing of performance expectations and the protocol for interacting with customers and responding to their needs. These are reinforced in training (which totals 250 hours for first-year front-line employees), in the daily five- to 10-minute briefing at the start of every shift, and through the company's reward and recognition system.

A new pyramid is developed every year during strategic planning. To set the stage, an extensive "macro environment analysis" is performed and the results are distributed to senior leaders well before the first strategic planning session. The analysis considers factors ranging from the world economic outlook and global supply of hotel rooms to actions of key competitors and from indicators of customer and employee satisfaction to supplier relations. A key output of the planning process that follows are the "vital few objectives" for the next three years. These are organized into categories corresponding to strategic goals, such as 100 percent customer retention, or to organizational unit, such as new product development. Appropriate performance measures are identified for all objectives, and senior managers are assigned responsibility for assuring the quality and reliability of data for tracking them.

Understanding Customers in Detail

At every level, The Ritz-Carlton is detail-oriented. Steps for all quality-improvement and problem-solving procedures are documented, methods of data collection and analysis are reviewed by third-party experts, and standards are established for all processes. Key processes also are dissected to identify points at which errors may occur. For example, to meet its goal of total elimination of problems, The Ritz-Carlton has determined that there are 970 potential instances for a problem to arise during inter-actions with overnight guests and 1,071 such instances during interactions with meeting event planners.

To cultivate customer loyalty, The Ritz-Carlton has instituted an approach of "customer customization," which relies on extensive data gathering and capitalizes on the capabilities of advanced information technology. Information gathered during various types of customer contacts, such as responses to service requests by overnight guests or post-event reviews conducted with meeting planners, are systematically entered into a database, which holds almost a million files. Accessible to all Ritz-Carlton hotels worldwide, the database enables hotel staff to anticipate needs of returning guests and to initiate steps that will help to ensure a high-quality experience.

This attention to detail and the company's commitment to continuous improvement is delivering benefits. For example, in 1998, more than 80 percent of meeting planners reported that they were extremely satisfied with their overall experience—up from fewer than 70 percent a year earlier—and 99 percent said they were satisfied. Among overnight guests questioned in an independent survey, nearly 75 percent reported extreme satisfaction with their overall experience at The Ritz-Carlton, as compared with fewer than 70 percent for the nearest competitor's guests.

Financial performance also is trending upward. Total fees; earnings before income taxes, depreciation and amortization; and pre-tax return on investment have nearly doubled since 1995, with Return on Investment increasing from 5.3 percent in 1995 to 9.8 percent in 1998. Revenue Per Available Room (the industry's measure of market share) continues to grow, exceeding the industry average by more than 300 percent.

For further information, contact:

Patrick Mene

Vice President, Quality

The Ritz-Carlton Hotel Company, L.L.C.3414 Peachtree Road NE

Suite 300

Atlanta, GA 30326

Telephone: (404) 237-5500

Fax: (404) 261-0119

E-mail: pat.mene@ritzcarlton.com

Web Site: www.ritzcarlton.com